

Message Text

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ACTION EUR-25

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USMISSION EC BRUSSELS

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AMEMBASSY MOSCOW

C O N F I D E N T I A L SECTION 1 OF 2 HELSINKI 0366

E.O. 11652: GDS

TAGS: PINT, EGEN, FI

SUBJECT:FINNISH WAGE AND INCOMES POLICY NEGOTIATIONS
BOG DOWN

SUMMARY: LABOR HAS PULLED OUT OF THE EFFORT TO FIND A
CENTRALIZED WAGE AND INCOMES POLICY SETTLEMENT. THE
GOVERNMENT MEDIATOR HOPES THAT THE TALKS CAN BE
RESUMED WITHIN A WEEK OR TWO, BUT THIS WILL DEPEND
ON WHETHER THE COALITION GOVERNMENT CAN PERSUADE
THE FARMERS TO LOWER THEIR DEMANDS AND FIND A BASIS
FOR AGREEMENT WITHIN THE GOVERNMENT ON TAX RELIEF,
PRICE CONTROLS, AND SOCIAL BENEFITS. THE SITUATION
LOOKS GLOOMY FOR THE MOMENT, BUT THERE IS STILL
HOPE THAT AN OUT AND OUT CONFRONTATION SITUATION
WITH WIDESPREAD STRIKES AND TAX-PAYER PROTESTS CAN
BE AVOIDED BY MARCH 9 WHICH IS THE PRESENT
DEADLINE.

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2. ON FEBRUARY 20, NILO HAMALAINEN, THE SOCIAL DEMOCRATIC CHAIRMAN OF THE FEDERATION OF LABOR UNIONS (SAK), WALKED OUT OF THE WAGE AND INCOMES POLICY NEGOTIATIONS SAYING THAT THE NEGOTIATORS WERE NOT GETTING ANYWHERE AND THAT TO CONTINUE GOING OVER THE SAME OLD GROUND WAS A WASTE OF TIME. HAMALAINEN DID NOT SHUT THE DOOR COMPLETELY ON THE TALKS, BUT CLEARLY INDICATED THAT IT WAS NOW UP TO THE GOVERNMENT TO BRING ABOUT SOME CONCESSIONS FROM THE OTHER INTEREST GROUPS INVOLVED. HAMALAINEN ALSO HAS COMMENTED THAT THE PRESENT SITUATION IS MUCH TOO SIMILAR TO THAT IN 1956 -- WHICH LED TO A GENERAL STRIKE. (COMMENT: HAMALAINEN'S MOVE IS PARTLY TACTICAL, BUT ALSO A TRUE EXPRESSION OF THE FRUSTRATION HE FEELS, PARTICULARLY WITH WHAT TO HIM IS THE VACILLATION OF THE GOVERNMENT AND ITS INABILITY TO STAND UP TO THE FARMERS. HE HAS HAD A BITTER INTERNAL FIGHT ON HIS HANDS IN THE SAK, BUT HAS BEEN ABLE TO RAMROD THROUGH THE MAJORITY SOCIAL DEMOCRATIC POSITION OVER THE HIGHLY POLITICAL AND UNREASONABLE COMMUNIST DEMANDS. NOW HE FEELS THAT IT IS UP TO THE GOVERNMENT TO WHIP THE OTHERS INTO LINE.)

2. THIS BOGGING DOWN OF THE NEGOTIATIONS WAS SUDDEN AND NOT EXPECTED, PARTICULARLY SINCE THE FEDERATION OF LABOR UNIONS (SAK) AND THE EMPLOYERS FEDERATION (STK), HAD FINALLY SETTLED DOWN TO FACTS AND FIGURES TWO DAYS BEFORE.

3. BOTH ARE STILL AGREED ON THE DESIRABILITY OF A TWO-YEAR CENTRALIZED AGREEMENT. THE EXECUTIVE BOARD OF THE SAK ON FEBRUARY 18 DECIDED TO ADOPT THE SOCIAL DEMOCRATIC MAJORITY POSITION OF DEMANDING THE EQUIVALENT OF A TWELVE PERCENT RAISE FOR THE FIRST YEAR AND A TEN PERCENT RAISE FOR THE SECOND YEAR. IN ADDITION TO THIS, THE SAK IS DEMANDING TWICE AS LARGE A TAX RELIEF AS THE GOVERNMENT HAS OFFERED SO FAR; A PACKAGE OF ADDED "SOCIAL BENEFITS" (ON WHICH THERE IS NO SERIOUS DISAGREEMENT); THE HOLDING DOWN

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OF FARMERS INCOME FROM FARM PRODUCTS TO A LEVEL WHICH WOULD NOT INCREASE THE COST OF LIVING BY MORE THAN TWO PERCENT; AND THE FIGHT TO TERMINATE THE TWO-YEAR AGREEMENT AFTER ONE YEAR IN CASE THE TWO PARTIES CANNOT REACH AN UNDERSTANDING ON WHETHER OR NOT FURTHER RAISES ARE NEEDED AS A RESULT OF INCREASED INFLATION. (COMMENT: THE SAK COULD PROBABLY, AS A MAXIMUM CONCESSION, AGREE TO A TEN PERCENT WAGE

RAISE AND FOUR PERCENT FARM PRODUCT INCREASE.)

4. THE COMMUNIST MINORITY FACTION IN THE SAK HAS STRUCK TO ITS PREVIOUSLY ANNOUNCED DEMANDS OF A ONE-YEAR AGREEMENT WITH "REAL" INCOME INCREASES AMOUNTING TO SIX PERCENT, WHICH WOULD TRANSLATE TO A TWENTY-TWO PERCENT PAY RAISE. (COMMENT: THESE ARE CLEARLY IMPOSSIBLE DEMANDS, AS THE COMMUNISTS WELL KNOW, AND HAVE BEEN MADE FOR PURELY POLITICAL PURPOSES WHICH UNFORTUNATELY MAY BE SERVED AT LEAST IN PART. ESPECIALLY THE STALINIST FACTION IS TRYING TO TAKE ADVANTAGE OF AN INCREASINGLY STRAINED ECONOMIC SITUATION TO CREATE ADDED HAVOC.)

5. THE EMPLOYERS (STK) HAVE COUNTERED THE SAK DEMANDS BY OFFERING BETWEEN FIVE AND SIX PERCENT RAISES YEARLY. (COMMENT: THIS IS OBVIOUSLY ONLY A BARGAINING POSITION, SINCE THE STK HAS PREVIOUSLY PLAYED AROUND WITH SEVENPERCENT AS A WORKABLE FIGURE. STK SOURCES TELL US THAT THEY EXPECT THE FINAL SOLUTION, IF ONE CAN EVENTUALLY BE REACHED, TO BE ON THE ORDER OF TEN PERCENT. THEY HAVE NO PROBLEMS WITH THE SOCIAL PACKAGE OR TAX RELIEF. THEY ALSO HAVE NO PROBLEM WITH THE SAK'S DEMANDS ON LIMITS TO FARM INCOME INCREASES, BUT EXPECT THE FARMERS ENDING UP GETTING ALMOST ALL THAT THEY DEMAND; I.E., FULL COMPENSATION FOR COST OF LIVING INCREASES WHICH THEY ARE ENTITLED TO BY LAW. THE STK DESPERATELY WANTS A TWO-YEAR AGREEMENT BECAUSE IT ALLOWS INDUSTRY TO MAKE LONGER PLANS. THE STK EXPECTS THAT THERE WILL BE ADDITIONAL INCREASES IN PAY AFTER A YEAR, BEYOND THOSE FORESEEN ORIGINALLY, BUT FEELS INDUSTRY WILL BE ABLE TO REACH AN AGREEMENT WITH THE SAK ON THIS

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AND WILL BE ABLE TO LIVE WITH SUCH INCREASES. THE STK ESTIMATES THAT A CENTRALIZED AGREEMENT WILL COST EMPLOYERS TWO PERCENT MORE THAN INDIVIDUAL AGREEMENTS WITH SEPARATE UNIONS, BUT FEELS IT WORTH THE PRICE IN GREATER CERTAINTY AND FEWER WORK STOPPAGES. THE STK DOES NOT EXPECT PRESIDENT KEKKONEN TO PUBLICLY INVOLVE HIMSELF IN THE NEGOTIATIONS THIS TIME. LASTLY, THE STK FEELS THAT THE SOCIAL DEMOCRATS IN THE SAK CANNOT CONCEDE (GIVE IN) MORE THAN TO REDUCE THEIR DEMANDS FROM A TWELVE TO TEN PERCENT RAISE, AND THAT ANY OTHER CONCESSIONS TO MAKE A TOTAL AGREEMENT POSSIBLE WILL HAVE TO BE MADE BY THE GOVERNMENT IN THE FORM OF SUBSIDIES, TAX RELIEF, OR PRICE CONTROLS. THE METALWORKERS NOW DEMANDING SEPARATE DIRECT NEGOTIATIONS, AFTER THE BOG DOWN, MAY LEAD THE

EMPLOYERS TO BE A LITTLE MORE FORTHCOMING.)
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ACTION EUR-25

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C O N F I D E N T I A L SECTION 2 OF 2 HELSINKI 0366

6. THE TWO MAJOR PARTNERS IN THE COALITION
GOVERNMENT ARE IN A DIFFICULT POSITION. THE SOCIAL
DEMOCRATS MUST ATTEMPT TO DO FOUR CONFLICTING THINGS
AT ONCE: DO EVERYTHING THEY CAN TO MAKE A TOTAL
SOLUTION POSSIBLE; SUPPORT THE ASPIRATIONS OF THEIR
FELLOW SOCIAL DEMOCRATS IN THE LABOR MOVEMENT; LIVE
UP TO THEIR NATIONAL AND FISCAL RESPONSIBILITIES AS THE
SENIOR GOVERNMENT PARTNER; AND NOT APPEAR TO GIVE
AWAY TOO MUCH TO THE FARMERS. THE CENTER PARTY IN
TURN, HEAVILY BASED ON THE FARMING VOTE, MUST BE ABLE
TO COME OUT OF THE FRAY AS THE CLEAR CHAMPION OF THE
RURAL POPULUS, BUT CANNOT AT THE SAME TIME ALLOW
ITSELF TO BE PLACED IN A POSITION WHERE IT COULD
BE BLAMED FOR SABOTAGING THE AGREEMENT. (COMMENT:
SHOULD NO AGREEMENT BE REACHED, THE GOVERNMENT WOULD
PROBABLY FOLD. SINCE BOTH THE SOCIAL DEMOCRATS AND

THE CENTER PARTY CAN BE EXPECTED TO MAKE GAINS IN AN
EARLY ELECTION, AND SINCE THE RIFT WITHIN THE CENTER
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PARTY IS GROWING, IT IS POSSIBLE THAT THE GOVERNMENT
WILL TURN OUT TO LACK THE NECESSARY WILL TO TAKE THE
DIFFICULT, AND PARTLY UNPOPULAR, BUT NECESSARY STEPS
THAT WOULD MAKE AN AGREEMENT FEASIBLE.)

7. THERE HAVE BEEN SPOT WILDCAT STRIKES AT PRODUCTION
SITES WHERE THE COMMUNISTS CONTROL THE UNION. THEY
HAVE BEEN PARTLY A DEMONSTRATION OF POWER, SO FAR
LARGELY AIMED AGAINST THE SOCIAL DEMOCRATIC MAJORITY
POSITION IN THE SAK. THESE STRIKES ARE EXPECTED TO
CONTINUE AND INCREASE, AT LEAST UNTIL SUCH TIME AS
THE COMMUNISTS SEE THAT THEY ARE ONLY ONES OPPOSING
AN AGREEMENT AND BECOME SO ISOLATED THAT FURTHER
STRIKES WOULD ONLY HURT THEM.

8. THERE HAS BEEN GROWING DISSATISFACTION AMONG
TAX-PAYERS, AND UNLESS THE GOVERNMENT CAN PROVIDE
SOME RELIEF EITHER THROUGH A REDUCTION OF TAXES OR
REALIGNMENT OF TAX TABLES, THERE IS THE RISK OF AN
ANTI-TAX MOVEMENT DEVELOPING SIMILAR TO THAT IN
DENMARK. THE GOVERNMENT MUST ALSO ACHIEVE THE ALMOST
IMPOSSIBLE TASK OF SLOWING DOWN THE HIGH RATE OF IN-
FLATION, WHICH LAST YEAR RAN AT 15.3 PERCENT, AND
THIS YEAR THREATENS TO REACH 20 PERCENT OR MORE.

9. THE WHOLE INCOMES POLICY NEGOTIATION SITUATION
CONTINUES TO BE VERY MUCH IN FLUX. THE CHANCES FOR
AN AGREEMENT STILL APPEAR BETTER THAN EVEN, BUT THERE
IS A LONG WAY TO GO, AND LITTLE TIME (MARCH NINE
BEING CONSIDERED A DEADLINE BECAUSE THE REST OF
MARCH IS NEEDED FOR CONCLUDING SEPARATE UNION-
MANAGEMENT SPECIFIC NEGOTIATIONS BY APRIL ONE --
WHEN THE PRESENT AGREEMENTS EXPIRE).
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